

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-06
ITC-01 TRSE-00 PRS-01 SP-02 SOE-02 OMB-01 DOE-11
NSCE-00 SSO-00 USIE-00 INRE-00 DOTE-00 EUR-12
OES-07 IO-13 /120 W

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC IMMEDIATE 5436

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E.O. 11652: N/A

TAGS: EAID; PK

SUBJECT: DONOR INFLUENCE ON ECONOMIC AND DEVELOPMENT POLICY

REF: A. STATE 306060 B. STATE 306064 C. ISLAMABAD A-09

SUMMARY: THE MOST VISIBLE DONOR IMPACT ON PAKISTAN'S
ECONOMIC AND DEVELOPMENT POLICIES HAS BEEN MADE BY
AID TO PAKISTAN CONSORTIUM COUPLED WITH LARGE SCALE
TRANSFER OF RESOURCES. THERE HAVE BEEN OTHER,
SECTOR OR ACTIVITY SPECIFIC CASES WHERE DONOR INFLUENCE BROUGHT
ABOUT GOP POLICY CHANGES. MOST NOTABLE HAVE BEEN IFI
PRESSURES FOR CHANGES IN UTILITY OPERATIONS AND
CHARGES. SOME CASES WHERE THE ORGANIZATION OR OPERATION
OF SMALLER BUT IMPORTANT DEVELOPMENT ACTIVITIES WERE
STRONGLY INFLUENCED BY ONE OR MORE DONORS ARE ALSO
KNOWN TO US. LEAST IMPORTANT IN INFLUENCING POLICY
DIRECTLY HAVE BEEN U.N. AND ITS AGENCIES. UN IS
ACTIVE IN PROVIDING TECHNICAL EXPERTISE BUT HAS FEW
FINANCIAL RESOURCES FOR LEVERAGE BEARING TRANSFERS.
HOWEVER, THE ADVICE OF ITS TECHNICAL TEAMS HAS PROVEN
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EFFECTIVE WHEN SUPPORTED BY OTHER DONOR'S LARGER SCALE
RESOURCE TRANSFERS. END SUMMARY.

1. WITH REF C, EIGHT SHORT EVALUATIVE CASE STUDIES
DESCRIBING AID AND MULTILATERAL ACTIVITIES IN PAKISTAN
WERE TRANSMITTED TO DEPARTMENT. (BECAUSE OF TIGHT
TIME SCHEDULE THESE WERE ALSO HANDCARRIED TO NEA/PAB).

WE ARE NOW SENDING BRIEF COMMENTS ON OTHER DONOR (INCLUDING MULTILATERAL) INFLUENCE ON PAKISTAN'S ECONOMIC POLICY. THIS COMPLETES OUR IMMEDIATE REPLY TO REFTELS.

2. THE MOST VISIBLE, MOST EXPLICIT EXAMPLES OF DONOR EFFORTS TO INFLUENCE GOP POLICY HAVE BEEN AIMED AT MACRO ECONOMIC OR SECTORAL POLICIES. THEY HAVE BEEN BASED ON THE PREMISE THAT A MARKET FRAMEWORK WHICH GAVE CLEAR INCENTIVE SIGNALS WOULD BEST HELP PAKISTAN'S ECONOMY MAKE THE REGULAR ADJUSTMENTS NEEDED TO ALLOCATE RESOURCES IN THE MOST ECONOMICALLY EFFICIENT WAY. MOST, BUT NOT ALL OF THE RESULTING POLICY CHANGES HAVE BEEN IN THE FOREIGN TRADE AREA SINCE DONOR'S INFLUENCE ARISES FROM THEIR ABILITY TO PROVIDE EXTERNAL RESOURCES. THE DONORS HAVE ALSO INFLUENCED MEASURES TO CREATE A BETTER BALANCED, MORE EQUITABLE DISTRIBUTION OF THE BENEFITS OF THE DEVELOPMENT IN PAKISTAN. FINALLY, THERE HAVE BEEN EFFORTS TO PUSH FOR SPECIFIC CHOICES IN NARROWER AREAS SUCH AS UTILITIES, OPERATIONS AND IMPROVED MANAGEMENT AND WATER RESOURCES.

3. THE MOST CONSPICUOUSLY SUCCESSFUL DONOR INFLUENCED ECONOMIC REFORM WAS THE IMPORT LIBERALIZATION AND FOREIGN EXCHANGE EYSTEM RATIONALIZATION--THE ECONOMIC AND FINANCIAL REFORM PACKAGE PAKISTAN LIMITED OFFICIAL USE

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IMPLEMENTED IN SPRING OF 1972. (FULLER DESCRIPTIONS ARE IN THE U.S. FY 1972 "PRODUCTION LOAN; PAKISTAN" PAPER, AND THE IMF EBS/72/150 OF MAY 10, 1972. THE REFORM WAS DIRECTLY RESPONSIVE TO THE AID TO PAKISTAN CONSORTIUM (INCLUDING THE IMF). THE REFORMS RATIONALIZED RELATIVE PRICES, WHICH A CUMBERSOME BUREAUCRATIC MACHINERY HAD SKEWED TO FAVOR LARGE SCALE INVESTMENT AND EVEN INAPPROPRIATE TECHNOLOGY. THE TWISTED PRICES HAD ALSO WORKED AGAINST FARMERS, PARTICULARLY SMALL FARMERS AND DONORS.

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C O R R E C T E D C O P Y - T E X T (P A R A 6 .)

5. EARLIER THERE HAD BEEN SUCCESSFUL WORLD BANK
AND U.S. EFFORTS TO SUPPORT REMOVAL OF PARTICULARLY
BAD EXAMPLES OF CONTROL ON SPECIFIC COMMODITIES, E.G.
THE STEEL IMPORT RESTRICTIONS WHICH WERE REMOVED IN
THE LATE 60S.

6. AMONG THE MICRO ECONOMIC, ACTIVITY SPECIFIC
POLICY CHANGES IN WHICH DONOR INFLUENCE WAS CRUCIAL
HAVE BEEN SUCCESSIVE CHANGES IN RAILROAD RATE
PATTERNS AND OPERATING PROCEDURES SUCH AS BLOCK
SCHEDULING. THESE HAVE RESULTED, FOR EXAMPLE IN
FREIGHT TRANSIT TIMES BEING SHORTENED BY SEVERAL
WEEKS IN THE LAST 3 YEARS. FREIGHT RATE DISTORTIONS
WHICH INCREASED EXPORT COSTS HAVE BEEN CORRECTED.
WORLD BANK INFLUENCE WAS PARAMOUNT, BUT SUPPORTED
BY CANADIAN AND GERMAN COOPERATION WITH THE LATTER
FINANCING LOCOMOTIVES, SWITCHGEAR, DIESEL AND
ELECTRIAL EQUIPMENT.

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7. THE PAPER ON AGRICULTURAL INPUTS SENT WITH
REFAIR PROVIDES DETAILS ON IMPORTANT SHIFTS IN FERTILIZER
POLICY WHICH HAVE IMPROVED AGRICULTURAL PRODUCTION.
THE SUPPORT OF THE ASIAN DEVELOPMENT BANK AND THE
WORLD BANK FOR THESE CHANGES WITHIN THEIR DISCUSSIONS
LEADING TO FINANCIAL PROVISIONS FOR MIRPUR MATHELO
AND THE PROPOSED FAUJI AGRICO FERTILIZER PLANTS WERE
ALSO IMPORTANT.

8. SOMETIMES DONOR INFLUENCE ON DEVELOPMENT

POLICY HAS BEEN MANIFESTED AT QUITE DETAILED LEVELS. IN THE CRUCIAL AREA OF RURAL DEVELOPMENT, FRG INFLUENCE PRESERVED THE COOPERATIVE BASED DAUDZAI EXPERIMENT IN THE NORTHWEST FRONTIER AT A CRUCIAL TIME. USAID HAD BEEN APPARENTLY UNSUCCESSFUL IN KEEPING THIS PILOT EFFORT, BASED ON EXPERIENCE IN EAST PAKISTAN AT COMILLA, FROM BEING PROGRESSIVELY DOWN-GRADED. THEN FRG RURAL DEVELOPMENT EXPERTS OBTAINED BONN SUPPORT IN LIMITED GERMAN ASSISTANCE TO RURAL DEVELOPMENT ACTIVITIES TO REPLICATIONS AND SUPPORT OF DAUDZAI. THE PILOT EXPERIMENT WAS NOT REPEAT NOT TERMINATED. FRG INTERVENTION WAS NOT ONLY SUCCESSFUL, BUT APPARENTLY SEEN WITHOUT RESENTMENT AS A TECHNICAL ONE BY GOP. THIS, IN SPITE OF THE SIGNIFICANT POLITICAL IMPLICATIONS OF THE DAUDZAI EFFORT WHICH WAS A PILOT MODEL FOR LOCAL GOVERNMENT ACTIVITIES.

9. THE U.N. AGENCIES (AS DISTINGUISHED FROM THE IFI'S) HAVE PERHAPS BEEN LEAST SUCCESSFUL IN DIRECTLY INFLUENCING PAKISTAN'S ECONOMIC AND DEVELOPMENT POLICIES. THEY HAVE LITTLE LEVERAGE, BECAUSE THEY DO NOT HAVE LARGE SCALE FINANCIAL RESOURCES TO OFFER. LIMITED OFFICIAL USE

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HOWEVER, SUCH WORLD-WIDE ACTIVITIES AS THE ILO CAMPAIGN RE-EMPLOYMENT AND BASIC NEEDS, THE FAO EMPHASIS ON FERTILIZER, AND VARIOUS UNICEF AND WHO CAMPAIGNS HAVE PROVIDED AN IDEOLOGICAL AND THEORETICAL FRAMEWORK WICH LARGER BILATERAL AND WORLD BANK RESOURCE TRANSFERS HAVE HELPED TO TRANSLATE INTO ACTION. HUMMEL

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